

3 RICHARD A. KNOWLES
4 was called as a witness, and having been first duly
5 sworn, testified as follows:

6 EXAMINATION

7 BY MR. ANDEER:

8 Q. Good morning, Mr. Knowles. Could you
9 please state your full name for the record?

10 A. Richard Allen Knowles.

11 Q. And your place of employment?

12 A. SAP America.

13 Q. And your business address, please?

14 A. 3999 West Chester Pike, Newtown Square,
15 Pennsylvania.

11 Q. I'm going to be asking you a series of
12 questions today about the enterprise software
13 market in general as well as the Oracle proposed
14 takeover of PeopleSoft. Both these topics are
15 subject to litigation, as I'm sure you are well
16 aware.

17 Let me just lay out a couple of ground
18 rules for you before we begin. I'm going to ask
19 for both my benefit and for the benefit of the
20 court reporter that you make all your answers
21 verbal, so both of us need to refrain from as many
22 hand gestures in responding to our questions as

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1 possible.

2 I would also ask that if I ask a question

3 that you don't understand, please let me know and I

4 will try to rephrase it. If you need a break at

5 any time during this proceeding, just let me know

6 and we will try to accommodate you. It's probably

7 a good rule that we break about every hour. And

8 one final thing. Is there any reason that you

9 don't think you could answer my questions

10 truthfully or fully today?

11 A. No.

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1 Q. Back on the record. I believe I asked
2 you what are your current responsibilities as vice
3 president of operations for SAP America.

4 A. Okay. I oversee the North American
5 operations on behalf of our CEO. In essence I
6 operate as kind of like a chief of staff or a
7 mini-chief operating officer for the corporation.

8 This entails duties that represent sales,
9 marketing, service, consulting. My role is
10 horizontal in nature, crosses all lines of
11 business. I execute on the strategies, the
12 development of the strategies, for SAP America. I
13 oversee the pipeline process and the way we go to
14 market to sell in a given quarter, and I work the
15 processes that include customers, customer
16 satisfaction, and then a variety of special
17 projects that the chief executive, Bill McDermott,
18 would want me to oversee or execute on.

19 Q. So you report directly to the CEO, and
20 that is Bill McDermott?

21 A. Yes.

10 Q. You had mentioned that SAP America is the
11 sales and distribution arm here in the United
12 States for SAP AG; is that right?

13 A. Yes.

14 Q. What is it that SAP America is selling?

15 A. Software that SAP AG has created.

16 Q. Are there other services in addition to
17 software that SAP America offers?

18 A. Yes. We have four revenue lines of
19 business. One would be software. Second would be
20 maintenance and support services. The third would
21 be education and training services, and the fourth
22 is consulting services.

10 Q. Are you familiar with the term,
11 "Application software enterprise application
12 software?"

13 A. Yes.

14 Q. Where would that fit on this stack?

15 A. It actually sits on top of the stack.

16 Q. And is this, is enterprise application
17 software something that SAP sells?

18 A. Yes.

19 Q. So just looking at this stack, SAP offers
20 enterprise application software; is that right?

21 A. Yes.

22 Q. Data management, people process/portals,

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1 and integration platform. All those products?

2 A. Yes.

3 Q. Is there anything missing in this stack

4 that we have identified?

5 A. There's many modules and components
6 inside the stack, too numerous for me to rattle off
7 the top of my head, but I would like to clarify one
8 thing. SAP is in the business of creating the best
9 software in the world, and we refer to that
10 software as enterprise application software.

11 That's our core business.

12 NetWeaver or the technology stack is the
13 underpinning by which the software is delivered.
14 So NetWeaver is not the primary solution that we
15 devise. It actually helps us in the delivery of
16 the enterprise application software. So all of the
17 products or solutions that we call enterprise
18 application software, they all sit on top of the
19 technology stack.

20 The technology stack is to us a
21 differentiator and an enabler to bring our product
22 to market, to help our client solve their business

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- 1 issues or business problems. So the way you asked
- 2 your question, we would reverse it and say what is
- 3 most important is the software at the top of the
- 4 stack, and then the stack becomes a differentiator.

6 Q. What is the relationship between the R/3
7 enterprise and mySAP ERP?

8 A. When we released and came out with mySAP
9 ERP with the NetWeaver underpinning, that
10 essentially is the next evolutionary step for an
11 R/3 customer today. So if you are a brand new
12 customer and you came to SAP and said I would like
13 to buy R/3, you would essentially be buying mySAP
14 ERP with NetWeaver underpinning. So it's next in
15 the evolutionary cycle. If you think of time in
16 history, you would go from R/2 to R/3 to just mySAP
17 ERP, with the NetWeaver stack. That is the cycle.

5 Q. Maybe this is -- how many customers does
6 SAP America have?

7 A. When you say "customers," you mean
8 individual buying entities or do you mean
9 installations?

10 Q. Well, that is a helpful distinction.
11 Perhaps first we should identify the number of
12 buying entities.

13 A. I don't know the exact number. Probably
14 in the neighborhood of multiple thousands, like
15 maybe close to 2,800 buying entities, 2,800 to
16 3,000.

17 Q. Just to be clear, this is sort of a
18 ballpark figure just between SAP America and buying
19 entities; is that right?

20 A. Correct.

21 Q. The parent SAP AG, do you know how many
22 buying entities have a relationship with SAP AG?

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1 A. Yes, probably in the neighborhood of
2 about 20,000 clients, which translates into roughly
3 67,000, 68,000 various installations.

4 Q. And in terms of installations in the
5 United States -- well, not in the United States,
6 I'm sorry. In terms of SAP America's
7 installations, what is that figure?

8 A. 2,800 to 3,000 equates to somewhere in
9 the neighborhood of probably 6,500 installations.

10 Q. Now, you have made this distinction
11 between buying entities and installations. What is
12 the difference there? Why is the number of
13 installations so much greater than the number of
14 buying entities?

15 A. You can have one client procure SAP
16 software and actually install it say at four
17 different locations, so that would be considered
18 four different installations, versus just one
19 consolidated instance. So if you have a
20 multinational or conglomerate that has multiple
21 divisions, we may have sold to various divisions of
22 the conglomerate, but not maybe the parent company.

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1 That's why.

2 Q. Do you have a feel for how many, looking
3 first at SAP America, this 2,800 to 3,000 number of
4 buying entities, how many of those have mySAP ERP?

5 A. Very few.

6 Q. Less than 5 percent?

7 A. I would say that's probably a good
8 number.

9 Q. What are the bulk of these buying
10 entities using? Are they using one of the R/3
11 versions?

12 A. Correct.

13 Q. Is there an effort on the part of SAP
14 America or SAP AG to convert these customers to
15 mySAP ERP customers?

16 A. Absolutely.

17 Q. How is that done? How is the conversion
18 or what is SAP America doing to encourage customers
19 to make this switch?

20 A. We have, in the normal course of
21 business, our sales executives work with the client
22 to understand what is their landscape that they

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1 have today, what are their needs, what are their
2 issues that they still may have within their
3 enterprise, and if it makes sense for them to
4 migrate or upgrade from say an R/3 installation to
5 a mySAP ERP installation.

6 Then if there is a business case, then
7 there would be a business reason to proceed and
8 actually attempt to work with the client to upgrade
9 them. Because in the ERP configuration, they are
10 going to get additional capabilities and
11 functionalities that they may not have today in
12 their current R/3 installation. Unfortunately,
13 each case, each client gets a totally different set
14 of circumstances. I wish there was a way to say we
15 have a group of clients that all look the same, act
16 the same, behave the same, but they do not. Each
17 enterprise operates differently.

18 Q. You mentioned that an R/3 customer
19 converting to mySAP ERP or mySAP Business Suite
20 will get added functionality; is that right?

21 A. Correct.

22 Q. Is there an added cost to converting from

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1 the R/3 to the mySAP ERP?

2 A. Absolutely. We don't do things -- we are
3 in the business of making software and selling
4 software. We don't give the software away for
5 free.

6 Q. So one, would one of the costs be an
7 additional license cost?

8 A. Yes.

9 Q. Would there be a cost to implement the
10 new version of the software?

11 A. Yes.

12 Q. Are there any other costs associated with
13 an upgrade from R/3 to mySAP ERP?

14 A. Well, you would also have maintenance
15 costs and you can potentially have training costs.

8 Q. In your experience, are there customers
9 that will evaluate their choice of SAP as an
10 application software vendor when considering an
11 upgrade, will they consider marketplace
12 alternatives for enterprise application software?
13 A. Absolutely.

8 Q. I guess I'm focusing on perhaps products
9 I have heard referred to as SAP All in One or SAP
10 Business One. Are you familiar with those
11 products?

12 A. Yes. Those are products that we sell at
13 the low end of the market through our channel,
14 primarily. Those are considered the small to
15 medium-sized business solutions.

16 Q. Why is there two separate sales forces,
17 the large enterprise versus the mid-market?

18 A. Since our last deposition, when we came
19 into this year we changed our go-to-market process
20 for covering the market.

21 We made a concerted effort as part of our
22 strategy this year to grow our mid-market channel

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1 through the direct sales force, and that
2 necessitated the need to actually hire and segment
3 and distinguish a separate sales force just for the
4 mid-market. We defined the mid-market as \$200
5 million up to \$1.5 billion in annualized revenues,
6 and we have a dedicated sales team that goes after
7 that market now in each region.

8 Then the other team is large enterprise,
9 which we define as \$1.5 billion and higher, and we
10 have dedicated a sales team to that. The strategy
11 and the rationale behind that is with greater
12 focus, we would have greater penetration and we
13 could get closer to the customer and serve the
14 customer in a tighter, more organized fashion.

15 Q. So just quickly summarizing, you have one
16 sales team, or within each region you may have
17 several sales teams which are dedicated to going
18 after accounts with between \$200 million and \$1.5
19 billion in revenues; is that right?

20 A. Yes.

21 Q. And then within each of those regions
22 there's separate sales forces going after those

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1 accounts with greater than \$1.5 billion in

2 revenues; is that right?

3 A. Yes.

4 Q. What -- is there a difference -- strike

5 that. What brought about this change? Why did SAP

6 decide to go with these two separate sales teams,

7 so to speak, forces?

8 A. It goes back to the heart of our

9 strategy, and our strategy was how do we -- it was

10 trying to answer how do we get closer to the client

11 and how do we continue to grow and innovate our

12 business. We identified that as an opportunity the

13 mid-market, the \$200 million to \$1.5 billion market

14 is still being underserved and underpenetrated, and

15 based on the economy, the way the economy has been

16 going, that if there was going to be any growth,

17 the smaller companies typically lead in the growth,

18 and they also are the first to spend.

19 Therefore, as we begin to come out of the

20 economic trough, we wanted to be well positioned to

21 serve that market and essentially continue to grow

22 our region, our SAP America. Historically from a

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1 percentage of business, we also see it as a great

2 opportunity as a catalyst to fuel our growth.

3 Q. Just so I understand, in order to pursue

4 these opportunities that you have identified, it

5 was decided you needed two separate sales forces;

6 is that right?

7 A. Yes.

16 Q. Is there a difference in selling to
17 entities, the different entities? Is there a
18 difference selling to a mid-market account, as you
19 have defined it, versus selling to a large account,
20 as you have defined it?

21 A. It depends. And it would depend on a
22 couple of factors. Is it different selling to a

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1 \$1.5 to \$2 billion entity versus a \$1.499 billion
2 entity? Probably not. But selling to a \$250
3 million entity versus a \$1.5-plus billion entity
4 yes, there's going to be some slight differences;
5 one, the amount of revenues they have, the amount
6 of different processes they might want to automate,
7 the amount of capital that they expend in their
8 capital budget. There's a variety of things like
9 that that will be different. But generically to
10 say they are the same, that would not be factual.

19 Q. And so this system tracks the different
20 opportunities that are currently being pursued by
21 SAP America sales executives?

22 A. Yes.

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1 Q. What sort of information is tracked by
2 this system?

3 A. That's a very broad question. In
4 general, it would be all of the activities related
5 to the client, meaning what is the solution that
6 the account executive anticipates the client
7 needing, the potential revenues that we think that
8 the sales cycle may generate. If there is a known
9 competitor competing for the opportunity, when we
10 anticipate it selling or closing. When do we
11 anticipate a contract signing. Broad general
12 things in those categories.

13 Q. You mentioned one of the areas is a known
14 competitor. Are account executives encouraged to
15 learn what other alternatives a potential client
16 might be considering?

17 A. If they are a good account executive,
18 absolutely.

19 Q. How is that done? How is that sort of
20 discovery done by the account executive?

21 A. It's done based on what you just said.
22 Discovery. It's working with the client, trying to

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1 ascertain from the client side are you looking at
2 other solutions, solution providers. Also
3 intuitively they should also know, if they have
4 been selling for a while, they should know. So if
5 you are looking for X solution, generally available
6 information says who offers X solution. We need to
7 anticipate them being in the sales cycle. A
8 variety of sources like that.

9 Q. You mentioned intuition. What sort of
10 factors -- again we are focusing on enterprise
11 application software sales to these larger
12 enterprises. What sort of factors would lead you
13 or an account executive to conclude this is my
14 competitor. What are the sorts of things they
15 should be thinking about?

16 A. Depends on the solution definition, if
17 it's a broad solution encompassing multiple
18 solution areas. Also the scale of the solution.
19 For instance, if it's a multinational solution that
20 is being sold in a variety of countries around the
21 world hosting multiple locations, that is quickly
22 going to tell the account executive then it's

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1 probably not going to be a start-up company
2 competing for that business, just because of the
3 size and scope of the project. That would be like
4 one factor.
5 The other factor is the type of solution.
6 For instance, if they say, well, I'm in the market
7 to buy business intelligence software to do
8 strategic enterprise management. We would never
9 consider, our account executive would never
10 consider PlumTree, who is a portal company,
11 competing for that business. So it's just logic
12 rules based on what is the problem they are trying
13 to solve.

19 Q. Another factor may be the scale, and
20 perhaps here it would be helpful. What do you mean
21 by the scale? You mentioned globally, but are
22 there other dimensions?

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1 A. There's a variety of dimensions in any
2 given sales cycle. I just used scale as one
3 example. To elaborate on that, if you have a
4 client that has operations in, say, five different
5 countries, then that client, if they are going to
6 use, say, a financials package, and maybe we are in
7 the market to sell them a financials package as
8 part of the solution, that means they will need to
9 have multicurrency capability.

10 Well, to do multicurrency, the solution
11 set needs to provide multicurrency support, which
12 we do, which some competitors may not, depending on
13 which currency it is. So just by saying I need
14 global instance, multiple currency support, and I
15 need that supported, that is going to kind of limit
16 the field of choice pretty rapidly, depending on
17 which countries have to be supported. That is the
18 type of logic rules.

2 Q. Perhaps that's helpful. You mentioned
3 that one of SAP's strengths is global pricing; is
4 that right?

5 A. Yes.

6 Q. What would you list as some of the other
7 strengths that SAP has?

8 A. We offer the broadest set of available
9 languages, largest set of multinational currencies.
10 We offer the broadest solution set in the industry.
11 We offer the largest innovation and research and
12 development to build the best software in the
13 world. We run some of the best business processes
14 for some of the best companies in the world. And
15 because of our customer base, we have throughout
16 the last 30-plus years gained insight into best
17 practices from all of these industries and all
18 these customers that any new customer signing on
19 with SAP, they get to leverage that knowledge base.
20 And best practices of some of the other best run
21 companies in the world. That is what we would
22 consider at our high level key differentiators for

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1 SAP.

2 Q. Starting with the last, what is the
3 importance of being able to leverage the knowledge
4 base of your customer base?

5 A. It's important from the perspective that
6 when a client buys a solution, when they are trying
7 to solve a problem, that they can rely on a company
8 that has done it before, experienced maybe some
9 hardships during the learning curve, and it has the
10 set of experience that says this is the way we did
11 it with XYZ company and this is the way we can
12 solve it for you.

13 The customer is not necessarily buying
14 just software. They are buying a solution, and
15 usually when they are making a decision, they want
16 to make a decision based on what company is able to
17 speak to expertise, and experience that says they
18 can actually do it, and they have actually done it,
19 and they have actually earned their, so to speak,
20 their stripes and lessons learned. So when we go
21 to engage with a client, they are buying that body
22 of knowledge, and we believe that is a key

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1 differentiator for SAP.

7 Q. You had mentioned a learning curve.

8 Could you explain the learning curve as it pertains

9 to enterprise application software. What is that

10 learning curve?

11 A. Learning curve, it depends on the area

12 you would like to discuss. Learning curve has

13 multiple meanings inside the software world. When

14 I use the word "learning curve," the way I meant it

15 or intended it was if you are talking about a

16 company that has never automated any of its

17 business processes, they are doing everything

18 manual, for them to go from a manual process or a

19 highly dependent, highly focused labor process to

20 an automated process, that is going to require a

21 major cultural change inside the core DNA of that

22 company.

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1 Software doesn't necessarily solve that.
2 You actually have to have change in the people and
3 their mindset along with automation. It's the
4 marriage of those two that come together in an
5 implementation such as SAP or any of the other
6 solutions, for a client to say who is going to be
7 best positioned to help me. Who has done that
8 before. Who knows my business the best. Who
9 understands, by the way, how other companies in my
10 industry may be doing this, so who can help me the
11 best. We believe that is SAP.

12 So the learning curve is the client has
13 got a learning curve that, to make that transition,
14 they get to leverage that body of knowledge within
15 SAP. Yes, on the product side it's one thing, but
16 it's also on how have other companies implemented
17 it. How are they leveraging it. Which pieces did
18 they leverage first, second and third. That is
19 what they get with SAP. That's the learning curve
20 I spoke of.

21 Q. And that is more from the customer's
22 perspective, looking at how SAP can help it get to

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1 where it wants to go?

2 A. Absolutely. Everything we do is from the

3 customer's perspective.

4 Q. Looking at that, what are the industries

5 in which SAP offers a deep experience, something a

6 customer would value?

7 A. We offer solutions in 23 broad

8 industries. Our primary industries would be the

9 manufacturing industries, discrete manufacturing

10 process, and in those we break those down into such

11 industries as chemicals, pharmaceuticals, aerospace

12 and defense, high tech, consumer products, the

13 services industries, financial services, banking,

14 insurance, state and local government, federal,

15 higher ed. Those are the broad categories, but we

16 have solutions in 23.

17 Q. Within those 23, are there industries in

18 which SAP has deeper experience, as opposed to

19 perhaps less experience in?

20 A. Yes.

21 Q. What are some of the deep industry

22 knowledges?

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1 A. Anything in the manufacturing realm,
2 consumer products realm, are typically going to be
3 the strong suit. Anything in the services side is
4 going to be not as strong, such as the financial
5 services side, some in the public sector side, such
6 as health care, the public sector area. Those are
7 probably the lower level.

16 Q. Is there a learning curve on the part of
17 SAP when it is entering, say, an industry in which
18 it may not be as familiar with?

19 A. Yes.

20 Q. What is that learning curve?

21 A. Again, that is a very broad question to
22 be answered, but let me categorize the answer this

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1 way. In the public sector, for instance with
2 health care, there's a set of rules and governance
3 around the health care area that is referred to as
4 HIPPA. To know how HIPPA works and to be able to
5 offer the solutions sets to solve the HIPPA
6 requirements, that would require us to, one, make a
7 substantial investment in learning HIPPA,
8 understanding how finances and human capital and
9 procurement, et cetera, all work within, inside the
10 health care organizations. So it's one thing to
11 learn it.

12 Then the next set of body of knowledge
13 from a learning curve is how do we actually
14 automate it. How can we build in an automated way
15 of solving the HIPPA reporting requirements which
16 is going to be distinctly different than maybe the
17 way a typical manufacture deals with things,
18 because manufacturers doesn't have to deal with
19 HIPPA.

20 So each industry has its own unique set
21 of regulations maybe or processes and we would have
22 to make a huge capital investment to learn and then

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1 transfer that knowledge actually into automation or
2 into writing the code to solve that business
3 process issue.

4 So it has two effects on anybody trying
5 to get into that business. Lawson has taken great
6 steps, I think, and they have done a phenomenal job
7 at learning about health care, working with health
8 care clients, understanding the needs of health
9 care clients and actually transferring that body of
10 knowledge into their product.

11 SAP, on the other hand, we have tended to
12 focus on other areas and not as well as Lawson has
13 in health care, for instance. So in that case we
14 would say they are better able to solve that
15 business need than we are.

16 Q. You mentioned financial services as an
17 area in which you have less expertise; is that
18 right?

19 A. I wouldn't say less expertise. I would
20 say that is not our strong suit when you compare it
21 to, say, high tech or one of the manufacturing
22 industries.

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1 Q. Do you find in looking at different
2 industries there are different -- you mentioned
3 Lawson in health care, but do you see different
4 companies in terms in each of these different
5 industries?

6 A. Depends on the industry. There are
7 different dynamics for each industry, and health
8 care is just as extreme example, because Lawson
9 happens to be phenomenal at health care, but, yes,
10 there's different positions and players in each
11 industry.

12 Q. In terms of financial management
13 software, are there differences, say, between what
14 a discrete manufacturer may be using for financial
15 management and what, say, a health care
16 organization is using for financial management?

17 A. At the high level, there's no difference.
18 They both need to account for money. They both
19 have treasury operations. They both have to pay
20 people, employees and suppliers. So at the high
21 level, no. But when you get into the industry
22 differences between a health care organization

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1 versus a manufacturing organization, then there

2 becomes differences.

3 In manufacturing, they are more worried

4 about the accounting and cost management of their

5 manufacturing process and cost accounting. Whereas

6 in health care, they don't manufacture anything,

7 they serve. They serve patients. So the

8 accounting is more about patients and supplies and

9 different components to serve a patient, whereas a

10 manufacturer is worried about widgets and parts and

11 inventories. So even though they kind of do the

12 same thing and it all involves money, the actual

13 how-to is distinctly different.

14 Q. And those differences must be accounted

15 within the software itself?

16 A. Absolutely.

17 Q. Let's look at human resources. Are there

18 differences between, say, a discrete manufacturer,

19 for example, one of the big three automotive

20 companies, and a financial institution such as

21 Citibank, in terms of HR applications?

22 A. There's probably going to be slight

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1 differences. Both have employees, both have
2 vacation, both have accounting for payroll. At a
3 high level generically they would be the same.
4 However, in a financial services industry, from an
5 HR standpoint they are probably going to measure
6 their people and compensate their people quite a
7 bit different than a discrete manufacturing person.
8 Their compensation may be more hourly based, may be
9 performance based on production, whereas financial
10 services is going to be more tied to corporate
11 goals or revenue streams.

12 So the actual, again, at the high level,
13 they may seem similar. You both have employees,
14 but at the operational level, how it's implemented
15 and what you do with the application is going to be
16 distinctly different, industry to industry. So
17 unfortunately the same answer as financials.

18 Q. So there are differences again that must
19 be accounted for within the software, depending on
20 what industry you are working in?

21 A. Absolutely.

22 Q. In terms of the example we used, are

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1 there, you have, say there is a unionized work
2 force versus a more white collar work force. Is
3 that something that is significant in terms of your
4 HR enterprise application?

5 A. The rules that would govern union labor
6 versus non-unionized labor, sure. The management
7 of those employees would be distinctly different.
8 Again, we are speaking at a very high level.

9 Down, the lower level you go into, the
10 actual processes that each company runs is going to
11 be distinctly different. I think the best
12 statement is this. There are 23 different
13 industries that we cover. Each industry is unique
14 in its own way, and within each industry, each
15 company has its own uniquenesses of how it wants to
16 run its operations. So even though I know we are
17 contrasting HR between a discrete manufacturer and
18 a financial services industry, I want to make sure
19 we understand that even in discrete manufacturing,
20 the way each of the discrete manufacturers view
21 themselves and the way they want to administer
22 their HR policies is going to also be different.

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1 So at the broad level industries are
2 different, but even within the industries,
3 companies are very different. And the software has
4 to be able to be configured in such a way to solve
5 what that company thinks is the more important
6 elements to run its business, to try to create some
7 element of competitive advantage from the other,
8 their own competitors, within their given industry.

9 Q. So looking -- maybe it's helpful to look
10 at a particular industry, say high tech. There's a
11 number of different desktop manufacturers. You
12 have Dell, you have HP, for example. Would those
13 two companies, would they be looking for unique
14 functions in terms of their HR, their financial
15 applications that say a potential vendor, software
16 vendor such as SAP would have to account for?

17 A. Yes. Each of those would be distinctly
18 different, because the way they sell, market,
19 distribute, make their products is distinctly
20 different, so that is going to require different
21 ways of accounting financially for their products.
22 So, yes.

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1 Q. So it sounds like neither of these
2 companies could simply go to your neighborhood
3 Office Depot and pull off, say, just an
4 off-the-shelf software and plug it in to perform
5 these functions. Is that right?

6 A. Depends on what application you are
7 saying.

8 Q. Let's look at HR. Say we are looking at
9 Dell. If Dell wants to automate its HR department,
10 could it go to Office Depot and pull off a software
11 package and just simply install it and run its HR
12 department?

13 A. At the highest level, sure. It sounds
14 crazy, but yes. They could go buy a small
15 off-the-shelf software solution for HR and do it.
16 They would be crazy to do it, because their costs
17 would be astronomically high to run it and probably
18 take a lot of people to do it. It's just the same
19 as we have firms that we run into today that do
20 project management scheduling on Excel. Why
21 haven't they converted over to Microsoft Project or
22 another project scheduling system? We are talking

00077

1 huge discrete manufacturing companies that actually
2 run their manufacturing floor off Excel for project
3 management, and they do Gant charts in Excel. Can
4 it be done? Sure. It's crazy, but there's
5 companies out there that do that.

6 Q. The costs are much greater if you do it
7 that way than if you implement SAP?

8 A. From a manual standpoint, yes, because
9 you are not automating the process and you are
10 making it more labor intensive.

11 Q. So you have more employees tracking and
12 inputting data?

13 A. Correct. You may not even necessarily
14 have more employees, but there is much more room
15 for error and you aren't allowing your data to be
16 updated in real time.

17 Q. So what does SAP do to position itself
18 versus, say, one of these companies that may be
19 using just stuff they bought off the shelf?

20 A. We look at their business process, how
21 they actually do it. We look at the cost that it
22 takes to do it. We look at the cost, their

00078

1 opportunity costs, meaning if they were to do it
2 differently, would they make any substantial gains
3 in productivity, would they save cost. And if so,
4 we build out a business case that says here is the
5 opportunity that is presented before you if you
6 want to automate it, and lay out a business case to
7 say here is what it's goes to cost, here is what
8 it's goes to save, and here is the gap.

9 Q. Do you price your product to compete with
10 that off-the-shelf product?

11 A. Absolutely not.

12 Q. Why is that?

13 A. Because you are comparing an apple to an
14 orange. SAP is not a packaged software solution
15 that you would buy at an office products store.

9 Q. How long will it take SAP to have a
10 complete financial services offering? You
11 mentioned parts of it are mature, that parts are
12 not.

13 A. Are you meaning in terms of revenue or
14 are you just meaning in terms of what we believe is
15 the solution we need to bring to market?

16 Q. The latter. The solution you need to
17 bring to market.

18 A. Based on what we believe is the path that
19 we are on, I would think we are -- and this is just
20 a rough guesstimate. I would think we believe
21 probably in the neighborhood of maybe three solid
22 years out.

00081

1 Q. And how long has SAP been working on,
2 say, a complete solution set for the financial
3 services industry?

4 A. We have had solution offerings for
5 financial services for many, many years. However,
6 a dedicated effort to better understand the
7 industry and offer a complete solution set, I would
8 say has been renewed probably in the last maybe
9 year to 18 months. And that is evidenced by our
10 recent announcement with Accenture, to try to
11 incorporate their body of knowledge from serving
12 financial services, to understand their solution
13 set and try to work with them on shoring up and
14 continuing the development of ours.

15 Q. And this is to help SAP better -- when I
16 say this, the better, the relationship with
17 Accenture, and I guess that was announced in
18 September, 2003; is that right?

19 A. Correct. Specifically targeting
20 primarily the banking industry within the financial
21 services umbrella.

22 Q. SAP's motivation in engaging in this

00082

1 relationship is to draw on their body of knowledge

2 with respect to the financial services industry?

3 A. Correct. If we go back to the learning

4 curve, it made better, from a strategy standpoint

5 it made better sense for us to work with Accenture,

6 who have, has already gone through the learning

7 curve and understands the market needs of say a

8 bank, and particularly the U.S. banking process,

9 than it was to have us do it ourselves.

10 Q. Does the relationship with Accenture

11 shorten the development time?

12 A. That is a goal. That is the intention,

13 yes, from a strategy standpoint.

00085

20 Q. I would like to turn to, again, Exhibit
21 26 and then SAP 01191. In the first issue there,
22 Lawson spent far less than SAP on research and

00086

1 development. The number there quoted is \$53

2 million; is that right?

3 A. Yes.

4 Q. Then the attack point. "Lawson spent 14

5 percent less on research and development over the

6 past year." How is that used as an attack? What

7 is the significance of spending less year-to-year

8 on R&D?

9 A. It goes to momentum within the

10 enterprise, within their company. It's critical in

11 the software world to show that you are in tune

12 with the market and that you are making progress to

13 innovate and develop your product.

14 One of the things we train our sales reps

15 to do is in a sales cycle such as going against

16 Lawson, to point this out. The reason is this.

17 Ask the question, why did Lawson spend less money.

18 Maybe their product was less important this year.

19 Maybe they aren't investing in, innovating and

20 making their solution the best it can be in the

21 world. Maybe they are having financial difficulty

22 and they had to cut costs. So if they have cut

00087

1 costs on their product, then the product is not
2 going to improve next year.
3 These are just questions that this one
4 line in a publicly traded piece of information
5 opens for our sales reps to ask the questions. We
6 don't say that we know the answer. We are just
7 saying to the sales rep that in a sales cycle, if
8 they are up against Lawson, this is something you
9 should call into question, because R&D investment
10 and the stability of R&D investment over the long
11 term goes to product integrity and the product, the
12 way it innovates into the future. So either they
13 are improving their product or they are stagnating.
14 If they reduce their R&D investment, they are
15 stagnating, especially by that large of a percent.
16 That is a red flag. Something is wrong at Lawson.

00102

20 Q. Now, you mentioned this was a growth
21 strategy. What was SAP's traditional base? If
22 this was a new market for SAP or new opportunity,

00103

1 what was, how would you describe their traditional
2 market?

3 A. Traditional market, loosely defined, I
4 would think would be like \$500 million and up,
5 would be our good, core, always do business at.

6 Q. Are there, beyond the industry
7 differences which we discussed, are there
8 differences in your success depending on a
9 company's revenues? I mean, you mentioned the
10 decision to create this new sales force for \$200
11 million to \$1.5 billion and then \$1.5 billion and
12 above.

13 A. Yes.

14 Q. And we talked about some of the reasons
15 behind that. Now, consistent with that, I guess
16 I'm still trying to understand, what is the need
17 for this dedicated sales force for the \$200 million
18 to \$1.5 billion market.

19 A. We see that there is a huge opportunity
20 in that segment. If we look at just the volume of
21 business and the amount of revenues that we extract
22 from the \$1.5 billion market and up, we do fairly

00104

1 well. And from a strategy standpoint, we would
2 call that growing our customer share or growing our
3 wallet share of a client. Meaning if they have an
4 installation of SAP, we would be focused on cross
5 selling other applications, trying to expand the
6 SAP footprint within the enterprise.

7 In the segment of \$1.5 billion and below,
8 just the sheer volume of business, it did not
9 equate to the same ratio for the effort. We would
10 call that our market share strategy. Just because
11 of the sheer number of enterprises, we feel that we
12 are underserving that market. And the reason why
13 we are underserving that market is because our
14 sales reps are focused, the sales reps that we had,
15 focused on the large enterprises. Their time was
16 being eaten up by these large enterprises. When
17 you are dealing with a multinational conglomerate,
18 one sales or two salespeople, it takes a lot of
19 time from that person to be knocking on doors and
20 try to sell to other smaller-sized companies.

21 So for us to grow, we decided that one of
22 our growth strategies was to actually take a sales

00105

1 force, dedicate it to what we were calling the
2 mid-market in order to drive our market share up,
3 meaning bring in net new business. Historically if
4 you look at business, the business cycle for SAP
5 over the last couple years, the vast majority of
6 our business has been customer share business,
7 meaning customers that were already a client,
8 adding net new solutions or upgrades, et cetera,
9 but we were not bringing in a good share of net new
10 business. Not when you compare it to that of, say,
11 Oracle, PeopleSoft, Siebel, JD Edwards. They were
12 growing net new clients at a much greater rate than
13 we were.

14 So we viewed that from a pure strategy
15 standpoint. We were leaving that market unserved.
16 It was to the best interest of SAP in order to fuel
17 our growth to dedicate someone and hold them
18 accountable for selling to that segment. So it was
19 because of our own internal efforts of viewing
20 ourselves as an opportunity that we said let's
21 create a separate sales force.

3 Q. Are there differences in how SAP
4 positions its products to, say, a customer with
5 \$800 million in revenue versus say a customer with
6 \$8 billion in revenue?

7 A. Yes. There is a difference.

8 Q. What would those differences be?

9 A. It would go to, more to our marketing and
10 perception areas. Oftentimes SAP is viewed as
11 being too costly, too long to implement, very
12 complex software solution. So for some of the
13 smaller organizations that might be like an \$800
14 million company or smaller, those are going to be
15 the typical answers or statements that a company
16 may make to us.

17 So we work with our sales reps to help
18 them answer those questions. It costs too much.
19 Well, we have redesigned and repackaged our
20 solutions over the years. They have evolved and
21 now it doesn't cost too much, and cost is relative.
22 We look at total cost of ownership. So we make a

00113

1 commitment to the client that if the business case
2 doesn't prove it, we don't want them buying our
3 solution. And that is a commitment we make up
4 front with the client.

5 Second is on, it takes too long or costs
6 too much to implement. What we work with a client
7 on in that case or in that regard is we actually
8 have done some research to look at the average time
9 it takes to implement our software given different
10 sizes of companies. And we will show them that
11 for, I think your example was an \$8 billion
12 company. Yes, the complexities that surround that
13 company are going to be from a scale standpoint,
14 people changes, technology changes, the amount of
15 systems they have already in place. Their
16 environment will be a little more complex, so it
17 may take longer to implement the solution,
18 depending on what they are buying, versus that of
19 an \$800 million company. But we have an average
20 implementation graph that we typically will refer
21 to or show and say for companies within your size,
22 the average implementation time in that case might

00114

1 be six to nine months, whereas with the \$8 billion
2 company it might be more like 12 to 15 months. So
3 that is how we try to answer that question. So the
4 sales approach is going to be a little different in
5 the messages that we deliver. So that is how there
6 would be a difference.

7 Q. So it sounded like, and correct me if I'm
8 wrong, messaging to an \$800 million company there
9 are three areas that SAP has found it needs to
10 address. One is too costly; two, that it takes too
11 long to implement; and three, that it's too
12 complex; is that right?

13 A. Not the too complex, to an \$800 million.
14 Oftentimes it's the \$800 million and below customer
15 that would say your software is too complex. It
16 might be too much for what we need. That, we don't
17 want to buy something that we don't need. We
18 normally don't hear that from an \$8 billion
19 company. We hear that from an \$800 million
20 company.

21 Q. I'm sorry, I meant to reference the \$800
22 million company. The \$8 billion company, what

00115

1 makes these three things not concern, why aren't
2 these concerns of the \$8 billion company?
3 A. These are typically the top three things
4 that we will hear from a variety of sources. An \$8
5 billion company, the internal complexities that
6 govern their structure, their IT landscape, their
7 business processes, typically are going to be
8 oftentimes more complex than an \$800 million
9 company. Again, depending on which industry they
10 are in.

11 Generically at the top, if you ask any of
12 our SAP clients what do you think of SAP, or maybe
13 someone that is not a client, regardless of size,
14 that is going to be the top three things they will
15 probably rattle off the top of their head. At
16 least that is the analysis and data input we have
17 gotten back from our research.

3 Q. What makes that so different? Why is the
4 \$8 billion company so different from the \$800
5 million company?

6 A. The best answer is that it depends.
7 There's no set of, there's no five reasons why.
8 Each company is going to be different. Just the
9 sheer size and scope, and depending on which
10 industry, the business processes that they deal
11 with are typically going to be on average larger
12 and more complex and the solution set is going to
13 be needed to solve that, going to need to be larger
14 and more detailed versus an \$800 million company.

15 That is not to say that an \$800 million
16 company does not have a lot of the same business
17 issues or even some of the same complexities.
18 Certain industries might be just as complex,
19 especially companies that are in maybe a high
20 growth or fast growth mode.

21 You take a small company that is, say,
22 \$500- to \$800 million that is growing annually at

00117

1 20 to 25 percent, there's only a few of those
2 around today. If they are growing at a clip of 20
3 percent a year, then they are going to have a
4 totally different set of challenges than an \$8
5 billion company that is averaging 1 percent or 2
6 percent growth. So in that case the complexities
7 that surround that smaller company are going to be
8 even more challenging. They are having to add more
9 people, more systems, changing the way they do
10 business. If they are a manufacturer, they are
11 having to bring on new production lines. Each
12 customer is different. To categorically lump a
13 client together based on revenues, that is doing a
14 disservice to each of our clients who are just into
15 the general market overall.

8 Q. One of the complexities you mentioned was
9 the pace of growth. The \$800 million growing at 20
10 percent annually presents challenges to, say, a
11 vendor attempting to sell them an enterprise
12 software application; is that right?

13 A. It could, yes.

14 Q. Can you think of other examples in which
15 the characteristics of the company create
16 challenges for the enterprise software application
17 vendor?

18 A. There's a variety of potentials. Another
19 example, to give you an example, would be, let's
20 say you have a company that has decided from a
21 strategy standpoint that they are going to change
22 their manufacturing processes. Maybe they are

00119

1 changing their locations of plants or maybe they
2 are going to go from a make to a buy, where they
3 are going to outsource most of the manufacturing.
4 That is a pretty complex decision and has
5 ramifications on labor, plant location, assets,
6 human capital, for a potential outsourcing. That
7 is a highly complex, that one decision becomes a
8 highly complex set of factors that would say how am
9 I going to do this.

10 If they have a software solution from SAP
11 or anyone else, that is going to require quite a
12 bit of changes in order to facilitate that. Any
13 type of strategy change that a board wants to
14 implement typically will have ramifications across
15 all lines of business, and that is just one
16 example. So pick any business scenario and it
17 could have the same ripple effect, and it could
18 affect software.

3 Q. What is involved with implementation?
4 Why isn't it simply just plugging in SAP software,
5 loading the disk and letting it run?

6 A. The reason is usually when you load a
7 disk and let it run, that would lead me down the
8 path that you are talking about desktop software,
9 where it's going to be installed on one computer
10 and probably going to be used by one person making
11 a simple process like typing a Word document or
12 maybe creating an Excel spreadsheet.

13 When you install enterprise application
14 software, oftentimes it's going to be touching or
15 controlling what we would call a mission critical
16 system of a company. You use financials or HR,
17 let's say, how are you going to pay your people.
18 If it doesn't work right, your people don't get
19 paid. You have a whole bunch of upset employees.
20 That's totally different than your desktop computer
21 hung up and you have got to reboot your computer to
22 get your Word document back, or you lost your Word

00121

1 document. Losing a Word document and comparing
2 that to having payroll not run on time, that is
3 comparing apples and oranges.

4 In our previous deposition I gave you the
5 example of supply chain and compared it to desktop
6 solutions. If you try to schedule your raw
7 materials into your production line incorrectly,
8 you could shut down your whole production line,
9 impacting not only your inventory, but downstream
10 effects to your consumers and all of your employees
11 who are in manufacturing. And to stop a production
12 line, you are going to cost the corporation
13 literally millions of dollars a day. Comparing
14 that to something that you can just install
15 yourself on one desktop or something like that,
16 you, it's not a fair question.

1 MR. LINDSTROM: Let me break in and offer
2 a suggestion, if it would be helpful to you. I'm
3 not sure if it would be, but I notice in the past
4 few minutes there have been references back and
5 forth to testimony given during the CID proceeding.
6 That transcript has been marked as Exhibit 27 at
7 today's deposition. I have read it, and if it
8 would expedite matters, I would be happy to
9 stipulate for purposes of this deposition that
10 either side could use the CID examination, Exhibit
11 27, as though it were a deposition taken in this
12 proceeding, pursuant to the Federal Rules of Civil
13 Procedure, and that way we won't need to go over
14 the same matters, unless there's further
15 questioning that you want to conduct on those.
16 And, of course, I would be free to cross, if I
17 thought it was appropriate, based on Exhibit 27.

18 MR. ANDEER: Okay. Sure, I will agree to
19 that. I believe that will save us some time.

1 Q. Does SAP have the right to increase
2 maintenance prices annually? Is there a lock, do
3 you lock in -- strike that. In your typical
4 contract, does SAP commit to the 17 percent level
5 for the life of the software?

6 A. No. No.

7 Q. Is it an annual commitment? Is it
8 renegotiated annually?

9 A. It's not renegotiated at all. A typical
10 contract is, today's pricing is 17 percent, and
11 it's for one year. And we bill it annually at the
12 beginning of the year, and it's subject to terms
13 and conditions of the pricing. So if we have a
14 price increase, then they will be subject to the
15 price increase going forward. When we work with
16 the client on that, we are talking 17 percent of
17 what could be potentially millions of dollars for a
18 sale. They typically will want some reassurances
19 on pricing, and that is where we will then fall
20 back and say we have not had a price increase for
21 almost 10 years, so the likelihood of that going up
22 to 18 or 22 next year is, the probability is

00129

1 extremely low.

3 Q. Are the customers using -- we had
4 referenced earlier, I guess 2,800 entities that SAP
5 America has a relationship with, that you sold
6 software to.

7 A. Approximately.

8 Q. What percentage of those buying entities
9 are also using SAP or making themselves availed of
10 SAP's maintenance services?

11 A. The exact number I'm not positive of.
12 However, with a great deal of, a good number, I
13 would say we are probably talking about probably
14 high 90s. Very few instances of SAP are not
15 maintained. Very few.

16 Q. In discussing maintenance with customers
17 or in the sales cycle, let's look more broadly. In
18 the sales cycle you are looking at, obviously, your
19 software license pricing at some point, as well as
20 your maintenance pricing at some point. Are they
21 also interested in future versions? Say several
22 years ago I'm looking at R/3 enterprise. Were they

00131

1 interested in where SAP was going to develop its
2 product to the point where it's now mySAP ERP? Was
3 that a subject of discussion?

4 A. Oftentimes it is. The clients don't,
5 oftentimes the clients don't refer to it the way
6 you asked the question. What they want to know is,
7 as part of the sales cycle, the clients typically
8 will ask us for what is your product road map, in
9 which they would like us to tell them where is the
10 product headed, what are our R&D efforts that are
11 currently underway with that particular element,
12 that module, that package or piece of
13 functionality.

14 And what we do is during the sales cycle
15 we will share with the client the product road map
16 that we make publicly available to all clients
17 going forward. What we do not do is tell a client
18 here is the real deal that we are going to do with
19 this product. We are going to change it this way
20 and that would be three years out. That may be a
21 strategy for us three years out, but we are not
22 going to tell a client that.

00132

1 We are extremely conservative on what we
2 show a client, because one thing that SAP wants to
3 make sure of, because competitively I think it's
4 another differentiator, is we are very true to what
5 we commit to. So if we say here is the product
6 road map, here is what we know and this is what we
7 plan to deliver, then that is what we work toward.
8 So we don't try to promise anything in the future
9 that we don't know that we have a good probability
10 of delivering.

11 Then at the same time we don't paint a
12 picture for each client that is different. It's
13 the same picture. You want the product road map,
14 corporation A, B or C, they are going to get the
15 same product road map at all companies.

16 Q. Are the costs, are you aware of the costs
17 involved with transitioning customers -- strike
18 that. Are the costs, you have identified there are
19 some costs going from R/3 enterprise to mySAP ERP?

20 A. Yes.

21 Q. Is it your understanding there are
22 similar costs associated in going from an earlier

00134

1 PeopleSoft version to a PeopleSoft 8?

2 A. Yes. Anyone in this space would have a
3 cost differential.

4 Q. Anyone meaning any vendor going from one
5 version to another, there is a cost difference.

6 A. In any software company going from one
7 version to another, there is going to be an
8 incremental cost.

17 Q. Are there costs to that customer in going
18 from PeopleSoft 7 to SAP?

19 A. Yes.

20 Q. What are those costs?

21 A. Costs off the top of my head would be
22 licensing, maintenance, implementation. That would

00136

1 be the three broad costs.

18 Q. Can you explain or list some of the
19 differences between the two implementations? Where
20 are some of the differences? Why is it different
21 implementing it in kind of a, what we will call
22 greenfield opportunity versus, say, a company that

00137

1 already has PeopleSoft 7 or an Oracle 10.7

2 installed?

3 A. It's going to vary by -- in terms of what

4 you are trying to get to, I think it's going to be

5 hard to contrast the two, because each client is

6 different. So with the greenfield opportunity,

7 there would be a whole bunch of caveats, like do

8 they even have any other type of technology

9 implemented or are they just using desktops, so

10 they don't even have an infrastructure. Do they

11 have any other type of software? HR. How do they

12 do their financials. If they have experience with,

13 say, Oracle or Lawson or someone else on the

14 financial side, then the implementation may not be

15 nearly as bad.

16 If they are totally manual and they are

17 just now going to the first enterprise-type

18 solution and this is the first time they ever

19 bought software of this magnitude to run an

20 automated process, business process, that is going

21 to create a whole set of challenges and skill set

22 issues that they are going to need to have a

00138

1 learning curve on, versus a client that is a
2 PeopleSoft customer or an Oracle customer that has
3 an older version that, just by that very nature,
4 knowing that, that means they at least understand
5 the use of technology. They understand the use of
6 automated business processes. They understand the
7 implications that it has on culture within the
8 company and the dynamics that surround it.
9 So to take those two and contrast them,
10 it's going to be very different. At the highest
11 level, the learning curve that the PeopleSoft or
12 the Oracle shop has is going to help them on their
13 implementation, versus someone that is going from a
14 totally manual, because totally manual means there
15 will have to be a lot more change in management
16 that will have to happen. Whereas with PeopleSoft
17 or Oracle shops, they have already started that
18 change in management. They have already changed
19 the way they do the business process. That is
20 talking highest process. That is not talking
21 operations and people and skill set. That is just
22 trying to compare the two here in a brief

00139

1 conversation.

17 Q. Another one of these campaigns is one
18 targeted at I believe a company you said was Baan?

19 A. Baan; correct.

20 Q. Is that campaign, could you go into that
21 a little bit more? Is that campaign the same sort
22 of strategy as what you are doing with the JD

00141

1 Edwards/PeopleSoft campaign?

2 A. Not exactly. The Baan campaign was an
3 early campaign, if my memory, if I recall it
4 correctly. It was one we launched in January of
5 2003. And the idea there was Baan I believe had
6 just been sold again, and their market share and
7 revenues had continued to decrease over the last
8 couple years, and they had been I think sold or
9 acquired several times in like the last two to
10 three years. So we just viewed that as a unique
11 opportunity to walk in and help these Baan
12 customers out, because the Baan product was
13 stagnant. Their technology stack was stagnant. No
14 R&D was really being invested there. There was
15 really no good product road map, at least from our
16 assessment, so we figured these customers were
17 literally left holding the bag with no future
18 development. SAP viewed that as a unique
19 opportunity.

20 Q. When you say the Baan product was
21 stagnant, what do you mean?

22 A. If you look at the time in between their

00142

1 product releases or updates or new product roll
2 outs, it had become slow and the time gap started
3 to widen. Their R&D spending went down. Their
4 sales went down. So we viewed that as the product
5 is not maturing and advancing. Innovation stopped
6 and they become stagnant or actually not keeping
7 pace with the new technologies in the marketplace.
8 So we viewed that as a competitive opportunity.

9 Q. So it's important, or you viewed it as an
10 opportunity because you saw that there was no
11 ongoing development with the product?

12 A. Correct.

13 Q. Was the product being maintained?

14 A. I don't know. I believe so. I believe
15 they were still reporting decent maintenance
16 revenues, but maintenance and innovation are two
17 different things.

18 Q. Why are those -- could you explain why
19 are those two different things? I mean what --
20 strike that. When you say innovation, what do you
21 mean by that?

22 A. Software. The area that we work in, the

00143

1 enterprise application software market, the
2 technology that we use and have evolved to solve
3 business problems fosters itself in the capability
4 that a software matures. In other words, software
5 evolves over time. It becomes better. It can do
6 more. It can solve more issues. It can integrate
7 with other systems. It can, it morphs over time.
8 We viewed Baan as lacking those things, and we
9 didn't see any insight or future direction for
10 their product. So if a customer, if a Baan
11 customer -- at least this was our position -- if a
12 Baan customer wanted to improve a business process
13 and it was XYZ business process, the Baan product
14 probably would not be able to support them to do
15 that, because it's not new, it's not been kept up
16 to date, or at least from our estimation it was
17 not.

18 So we viewed that as an opportunity to go
19 in and say, well, we can help you do X, Y and Z.
20 So evidently Baan hasn't, so why don't you just
21 come on over to SAP and we will help do you that.
22 And by the way, we are going to be around a while.

00144

- 1 And we have got great momentum and we are going to
- 2 have a lot of customers in your industry and we
- 3 invest a lot of money in R&D and they don't and all
- 4 those other things. That's why.

11 Q. Let's focus on 29, since that is the one
12 you are probably at least somewhat more familiar
13 with. This is the e-mail is from Bill McDermott,
14 who you identified as the CEO of SAP America, to
15 you and Greg McStravick. Who is Greg McStravick?

16 A. Greg McStravick is, at the time of this
17 document, he was the senior vice president of
18 marketing, and why I was probably copied on this is
19 that I had the role that Greg has this year, last
20 year. Prior to his arrival, I ran marketing, so
21 that is probably why we are both on the e-mail.

22 Q. It looks like Mr. McDermott has forwarded

00148

1 a message from Mr. Apotheker containing two
2 attachments. I would like to focus on the second
3 of these attachments, which starts at SAP 29031.

4 A. Yes, I'm there.

5 Q. What is CMI?

6 A. Competitive market intelligence.

7 Q. Are these regular alerts? Is that
8 something you regularly receive?

9 A. Yes.

10 Q. Who prepares these documents?

11 A. They are prepared out of the CMI group
12 that reports through global marketing, and they
13 send these alerts out to our worldwide organization
14 as what it is, as an alert, to notify people of
15 things that are happening within the marketplace.

16 Q. And CMI, is that, you said they report up
17 through the global marketing group?

18 A. That is correct.

19 Q. Where is that group located?

20 A. CMI is, the bulk of these individuals are
21 housed in the Waldorf, Germany area. Global
22 marketing's headquarters is located in New York,

00149

1 New York.

2 Q. Are these alerts something you would read

3 and rely on in the ordinary course of business?

4 A. Broadly speaking, yes.

5 Q. Do you know who within the CMI group

6 prepared this particular alert?

7 A. No. And the reason for that is this is a

8 team effort. This document is a team effort.

9 Components of this document were probably, is

10 oftentimes gathered from the field organizations,

11 such as the market intelligence team in SAP

12 America. They would work with their counterparts

13 in CMI, the global team, to provide input from the

14 field organization, and then they would compile all

15 of the analysis from the field and their own

16 analysis to create this type of a document. This

17 is a collaborative document.

18 Q. Looking at SAP 29032, which is the second

19 page of this attachment, looking at the first

20 column, the final bullet point, would you mind

21 reading that for the record?

22 A. "PeopleSoft customers are the ones hurt

00150

1 the most. With Oracle abruptly devaluing users and
2 their investment in PeopleSoft applications, Oracle
3 plans to end future enhancements to products and
4 will force customers to incur switching costs in
5 the future."

6 Q. Do you agree with that statement?

7 A. Yes.

8 Q. Why do you agree? I mean, could you
9 explain why you agree with that statement?

10 A. The reasoning, again, this goes back to
11 the timing of this document and the timing of where
12 this analysis comes from. Oracle, in its initial
13 bid to buy PeopleSoft, one of the statements they
14 made was that they presented an end-of-life
15 campaign or end-of-life statement concerning the
16 PeopleSoft applications and made a declarative
17 statement that their products would have to morph
18 or transition into the Oracle suite. Because of
19 that, that is why this paragraph is in there. This
20 is our analysis based off of what the
21 representatives from Oracle stated. It totally
22 devalues the investment that PeopleSoft has made to

00151

1 their shareholders, to their product line and to
2 their customers, to totally dismiss it and say that
3 it is of no value, and the customers they have
4 today and the process they are running is of no
5 value and that it's going to have to transition to
6 Oracle. That was what we consider a very
7 overheated, hard-handed approach to the clientele
8 and to their shareholders.

14 Q. Sure. Oracle has publicly said it will
15 upgrade PeopleSoft customers to the most recent
16 version of Oracle eventually.

17 A. Okay.

18 Q. Is this upgrade to the next release of
19 Oracle, whenever that is going to take place, is
20 that as easy or as painless as Oracle has made it
21 sound?

22 A. No.

00153

1 Q. And why is that?

2 A. Based on the knowledge that I have,
3 Oracle's products only run, for instance, on an
4 Oracle database. Oracle typically integrates only
5 with itself, aggressively. PeopleSoft has a little
6 bit of a different approach, where they are a
7 little more open in working with multiple databases
8 and tend to operate in a little bit more of a
9 heterogeneous environment. Oracle tends to not be
10 that way.

11 So therefore to go from a more
12 heterogeneous type of environment and stating that
13 you must now come to Oracle and only use Oracle
14 databases and only have all your infrastructure on
15 Oracle and become more, a little more homogeneous,
16 that is going to be painful, especially if you have
17 a PeopleSoft shop that is quite diversified in a
18 heterogeneous environment. To say that the
19 conversion is easy and they will just convert over
20 to Oracle, that is not a solid claim.

21 Q. What makes it so painful? You said this
22 would be a painful process. Could you kind of

00154

1 discuss what is involved with that? What does it
2 take to take a PeopleSoft customer and change it to
3 an Oracle customer, or just not even looking at
4 PeopleSoft, is it similar to what it would take to
5 convert a PeopleSoft customer to an SAP customer?

6 A. Yes and no. Yes in regard that to switch
7 any type of enterprise system to another, that is a
8 pretty substantial change. Why is it more
9 difficult in this situation? To go from an SAP or
10 from a PeopleSoft to an SAP, we tend to be a little
11 bit more open, especially with our NetWeaver
12 technology stack. We basically say that we are
13 totally open, totally integratable with other
14 systems.

15 We have an infrastructure that supports
16 that. We are .NET compliant, J2EE compliant. We
17 have an XI or exchange infrastructure layer to show
18 that we have connectors and integration points to
19 other systems. PeopleSoft is not nearly as robust
20 as us, but has at least some of the same
21 capabilities, and they tend to be much more open.

22 So there still is going to be a

00155

1 monumental task. The reason why this is in this
2 document is because Oracle tends to be much more
3 closed in their systems infrastructure, because
4 they want everything. So we believe that
5 directionally and from a strategy standpoint, that
6 is a disadvantage for PeopleSoft. But to be clear,
7 to go from Oracle, PeopleSoft, SAP, Lawson, any of
8 the others, to switch, it's going to be costly and
9 it will require a good labor of time and effort.

10 And the other thing I will add is, though
11 I'm not a technologist, as I stated earlier, JD
12 Edwards core architecture is distinctly different
13 than the PeopleSoft core architecture. Those are
14 two competing architectures that have to come
15 together, and somebody has got to win or the
16 product has to become rearchitected to blend those
17 two lines together.

18 Oracle is a totally different set of
19 architecture. So in this situation you are talking
20 about taking three architectures, merging them into
21 one company and saying that the Oracle architecture
22 is the one that is going to win, and discounting

00156

1 the value of the PeopleSoft architecture and
2 discounting the value of the JD Edwards
3 architecture. That has massive ramifications on
4 the way technology would be used by any company.

5 Q. So it sounds like there are costs
6 associated any time you are going from one
7 application to another vendor's application.

8 A. Yes.

21 Q. You have testified that you don't believe
22 that the process will be all that easy if Oracle

00157

1 attempts to transition existing PeopleSoft

2 customers to the new version of Oracle?

3 A. Correct.

4 Q. What is your basis for that belief?

5 A. My basis would be reliant upon fact, and

6 the fact that I will draw on is SAP's history. If

7 you look at the history of this market and you look

8 at the players within this market, you do not see a

9 large amount of switching between different

10 systems.

11 So, for instance, even though we have a

12 PeopleSoft/JD Edwards campaign, we have not had

13 like a hundred or even a thousand customers come

14 running, saying yank out my PeopleSoft system

15 because I fear Oracle and let me give you a bunch

16 of money, SAP. We have just not seen that. I'm

17 talking less than a handful may have chosen to do

18 that. So though it's nice in documents, in

19 practicality there is a lot of money in investment

20 and human capital and emotional intelligence built

21 into these systems. You don't go and rip them out

22 and replace them overnight.

00158

1 And to trivialize them, that they can
2 just transition from PeopleSoft to Oracle, is a
3 total disregard to the investments into the process
4 that these companies are running. We are talking
5 about running a core company's foundation. The
6 shareholders should be shaking in their shoes.

7 What if their manufacturing plant closes
8 or production line stops? So to trivialize it,
9 that you can just upgrade it and they will
10 transition, we view that as not accurate, and our
11 history would say we don't go around replacing a
12 lot of systems. That is not our core business.
13 Our core business is selling net new, and if it's
14 PeopleSoft HR that is implemented, we would be
15 selling around them to sell a supply chain. We
16 would sell them financials. We would sell them
17 something else.

4 Q. In the sales process, in the sales cycle
5 we identified, when is price first mentioned?

6 A. It varies by client.

7 Q. So customers may ask in the discovery
8 phase how much your products cost?

9 A. Yes.

10 Q. And how do you answer that question, how
11 does SAP answer that question?

12 A. Early in the discovery process we would
13 typically answer that it depends on the solution
14 set you are trying to drive and what business
15 process you are trying to solve. So without having
16 a good solution definition, which would be kind of
17 like toward later in the evaluation phase to know
18 what the client really needs, it's hard to really
19 determine a price. We can definitely give ranges
20 and ballparks, but it would be just a guess.

21 Q. So if I'm a company in the market for an
22 HR solution and I'm just beginning the process and

00162

1 I ask how much is HR going to cost me, your

2 response would be --

3 A. It depends on what functions of HR you

4 would like. What functions of HR or what business

5 issues or bottlenecks in your company are you

6 trying to solve.

7 Q. So SAP needs to learn about that

8 particular customer's needs, as well as plans, in

9 order to price the product. Is that fair?

10 A. Correct. That's why that phase is called

11 discovery. We have to discover those things and

12 have a good understanding in order to craft or

13 portray back to the customer the right set of

14 solutions.

15 Q. I believe the second phase was what I'm

16 going to call the solution phase or the

17 demonstration phase.

18 A. Evaluation, yes.

19 Q. During that phase, can SAP offer a more

20 realistic price or can it quote a price to a

21 potential customer?

22 A. It's during that phase where we begin to

00163

- 1 get a handle on what the customer is going to want,
- 2 because what we end up having to demonstrate is
- 3 typically what they are going to need to procure.
- 4 So it's at that phase that we actually are in a
- 5 better position to start pricing out the scenario
- 6 for the client.

00164

1 Q. In the sales process, does SAP generally
2 quote one price and that's it? Is there just one
3 price for the product and end of negotiations? Let
4 me rephrase. I can see I asked another poorly
5 worded question. You said the pricing is dependent
6 on a number of different metrics. You have got
7 types of users, number of users, these different
8 engines, how many things you are going to be -- the
9 number of transactions perhaps through these, the
10 software is going to be accounting for. Those are
11 all different metrics in calculating a price for
12 the product.

13 A. Could be, yes.

14 Q. Once that price has been determined by
15 SAP, is there an engagement with the customer to
16 explain that price? Is it a collaborative effort
17 in terms of SAP working with the customer to
18 explain how its products are priced?

19 A. Yes. We would work with the client and
20 explain based on the solution they need in their
21 definition what we would be able to provide them
22 and the pricing that it would entail and give them

00165

1 a price and what we would consider, like a total
2 cost of ownership. Here is the maintenance
3 component. If you want us to work with you on
4 education and training, here is what we would
5 recommend for education and training. Also, if you
6 want us to run the implementation or if it's a
7 partner and they are going to do that separately,
8 that's fine. We would leave that part out. So it
9 is a definitely a collaborative effort. It is not
10 a here is one price, call us when you are ready to
11 order. This is very collaborative.

17 Q. And that level would be what? At what
18 level are you starting to review discount approval
19 requests?

20 A. Anything that goes to Bill McDermott or
21 higher.

22 Q. So according to this document, that is 75

00171

1 percent commercial, 85 percent public services?

2 A. Right. Or greater.

3 Q. Is that in fact what you are reviewing?

4 A. Correct.

5 Q. What sorts of information is included in

6 these approval requests? Let me ask you a

7 different question. What ideally would you like to

8 see in these approval requests?

9 A. One would be the pricing in general.

10 What are they buying at? What is the list price?

11 What is the standard discount? What is the

12 non-standard discount? What is the final price?

13 To make sure that maintenance is being represented

14 properly, that it's 17 percent or more based on

15 what services they want.

16 Understanding what is the sales

17 background for why this request is being submitted,

18 especially at this level above, to CEO's office or

19 greater. There has to be compelling reasons why we

20 would want to offer a greater than 75 percent or

21 greater than 85 percent discount. What are the

22 reasons? What are the market conditions? Maybe

00172

1 the customer has a unique situation. Maybe they
2 want to use our software in a different way than
3 maybe we price.

4 So there has to be, in my mind when I'm
5 working with our executive management team, there
6 has to be a business, some level of a business case
7 and firm reason to offer this level of a discount.
8 So I'm looking for the business justification, and
9 if it doesn't satisfy myself, I will work with Joe
10 LaRosa to go back to the account team, to go back
11 and say this doesn't look warranted. Please
12 resubmit, rework.

13 Q. Do you verify the information with the
14 account team?

15 A. That is part of Joe LaRosa's job. I only
16 get involved if it's, if something just doesn't
17 seem right or I need extra clarification to make
18 sure if it's called into question at Bill
19 McDermott's level or Mark White's level that I'm
20 prepared with the answer.

21 Q. Is competition, are competitors or
22 competitive solutions a part of this deal summary?

00173

1 A. Yes.

2 Q. Is that something that is always

3 included, sometimes included?

4 A. It's always included. It's always asked,
5 as part of the deal summary. One of the standard
6 questions is, is there a competitor involved. If
7 yes, explain the competitive nature of the sales
8 cycle.

9 Q. What is typically found in the
10 competitive nature? What are you looking for?

11 A. Who the competitor is, if known. What is
12 the competitive offering, if known. Maybe how the
13 competitor is positioning the software solution, if
14 known. How the competitor is pricing their
15 product, if known. If we have any intelligence
16 around that that we have gained. Things like that.

17 Q. And that information is all useful to you
18 in crafting your e-mail message that goes up the
19 chain?

20 A. Correct.

4 Q. So in your approximately year and a half
5 of experience, what sorts of deals do you see? You
6 are seeing deals with substantial discounts. What
7 sort of deals are you seeing? What comes across
8 your desk?

9 A. Anything greater than 75 or 85 percent.

10 Q. Is it a common occurrence to see that
11 sort of request?

12 A. No, not a common occurrence, no.

13 Q. Out of the opportunities being pursued by
14 SAP, do you have a feel for what percentage of
15 those opportunities may call for this kind of
16 request?

17 A. If my memory serves me right, in the
18 first quarter -- the best way I can answer the
19 question is to give you an example. In the first
20 quarter I think, if I recall correctly, we did in
21 excess of 300 transactions. In the first quarter
22 deals that I was involved with, at this level of 75

00175

1 or 85 or greater, probably talking less than 10,

2 maybe 12.

3 Q. How often are those requests denied by

4 your office, at your level, the CEO level?

5 A. I wouldn't say -- never. In 18 months.

6 Q. How often have you seen a request denied

7 by Leo?

8 A. None.

9 Q. In your 18 months of working in this

10 role?

11 A. Correct. And the reason for that is

12 there's a pretty hard filter before it gets to Bill

13 McDermott. So if anything, the justification is

14 built aggressively or it doesn't get to Bill

15 McDermott or to Leo. So it's not that me in the

16 middle, that I'm denying it, it's that we are

17 proving out of business case, and if there is not a

18 business case, it has to be reevaluated or we need

19 to understand the situation better in order to get

20 it to Bill or to Leo.

20 Q. What vendors are you seeing most often at

21 your level, in terms of competition?

22 A. Generally speaking?

00179

1 Q. Sure.

2 A. Oftentimes it is Oracle, PeopleSoft.

3 Public sector side it would be PeopleSoft, maybe

4 AMS. More times than not.

5 Q. And I believe you had testified earlier

6 account executives are encouraged to discover early

7 on who the competition might be for a particular

8 opportunity?

9 A. Absolutely.

10 Q. Why is that important? Why is that

11 important to SAP?

12 A. To make sure that we know how to position

13 our product in the best light possible. So we

14 highlight our strengths, we minimize our weaknesses

15 as it relates to the competitor that we believe is

16 competing for the business.

17 Q. So SAP will position itself differently,

18 depending on who they believe the competition is

19 for a particular opportunity?

20 A. Absolutely. If we have a way to

21 differentiate ourselves, then we exploit that.

3 Q. When we are talking about positioning,
4 one part of that is positioning during the
5 demonstration phase or the kind of explaining to
6 the client what your solution offers; is that
7 right?

8 A. Yes.

9 Q. And so during that process you are also
10 explaining what perhaps a competitor doesn't offer?

11 A. Yes.

12 Q. Are there other ways in which SAP
13 positions itself beyond simply this kind of
14 technical feature-to-feature comparison?

15 A. Yes.

16 Q. What are some of those ways?

17 A. Could be industry expertise. It could be
18 momentum within a particular industry. For
19 instance, let's say in a given industry, say the
20 top six leaders within that industry based on, say,
21 the Fortune 500, let's say the top six of those
22 companies are SAP clients.

00184

1 From a momentum standpoint, let's say we
2 are selling to a company that is not even in the
3 top 20. We can say hey, we handle the processes
4 for the top six. Subliminally meaning you want to
5 be like the top six, don't you? If we can handle
6 theirs, think of how you are going to benefit
7 because we can handle yours. And don't you want to
8 become one of the best run companies in the world,
9 just like the top six?

10 So the body of knowledge of having a
11 customer base is healthy and also showing that you
12 have momentum in an industry, saying you have got
13 this type of presence or this type of footprint
14 within the given industry. That helps.

15 Q. So just to summarize, one, you position
16 yourself feature to feature. This is what we
17 offer, this is what they don't offer. Two, you
18 kind of leverage your industry experience in a
19 particular group or your industry knowledge to win
20 deals, as well; is that right?

21 A. Yes.

7 Q. Just so I'm clear, in terms of pricing
8 and what matters and what doesn't matter in terms
9 of your deal approval process, if you are looking
10 at a financial opportunity, financial management
11 opportunity at a Fortune 1000 company. This is for
12 a corporate implementation. If the only competitor
13 identified is, say, IFS, IFS's pricing will have no
14 impact on the pricing, SAP's pricing?

15 A. In general, that is correct. However,
16 since you said IFS, we would say oh, what industry
17 is this? Because IFS is strong in a couple of
18 particular industries. So if they are actually
19 making a play in an industry that we view as one of
20 their weaker industries, we may not discount nearly
21 as much, because we know IFS really, at the end of
22 the day, no matter what price they are offering,

00188

1 they are probably going to be in a situation that

2 is going to put the client at risk, and if we

3 position strong, we think our position will hold.

4 Q. So it's not simply the identity of the

5 competitor, it's the whole kind of competitive

6 picture, what industry you are in?

7 A. Correct.

8 Q. What, who the customer is?

9 A. Correct.

10 Q. What their needs are; right?

11 A. Correct. That is why I said you can take

12 the competitor's name and remove it. We are

13 agnostic to the competitor. It's all the factors

14 that surround it, to your point. What industry?

15 What is the situation? What are they wanting to

16 use it for? How strong is our business case? Did

17 they allow us to help them with the business case

18 so we understand what their payback will be or

19 their anticipated ROI? All those factors have to

20 be taken into consideration. Then you can plug in

21 a competitor's name. That's fine. But we are

22 agnostic to that. What matters is the client.

00189

1 Q. But part of what matters to a client, it
2 sounds like, and correct me if I'm wrong, is the
3 functionality or features of the product?
4 A. That is selfishly, from a SAP
5 perspective, that is what we would typically say
6 from a product standpoint. By the end of the day
7 most clients, we would like to think they would
8 have brand preference toward SAP, but at the end of
9 the day, the customer is not looking for a brand to
10 buy. They are looking for a solution. The best
11 solution that is going to satisfy their business
12 needs and solve their problems in the most
13 cost-effective way with the greatest return. Take
14 our name, any competitor's name.
15 Whoever does the best job positioning
16 that business case, that value case for that client
17 is going to win the business. Functionality,
18 hopefully they have the right functionality to
19 deliver on what they need, and if the client has
20 done a good job doing that, the due diligence, they
21 will know that. But functionality is one of the
22 many variables the client should be looking at.

00190

1 Q. I'm sure you have mentioned it, but what
2 are some of those variables, if you wouldn't mind
3 simply listing for my benefit what are the
4 variables you believe the customer should be
5 looking at?

6 A. Total cost of ownership, scalability,
7 multinational, whatever the multinational features
8 that they will need. What is the value case for
9 delivering it? What is the implementation proposed
10 time frame? What business solutions and what
11 processes are being resolved or solved through the
12 software implementation? What is the potential
13 impact to the organization, meaning level of effort
14 to actually do this project, and what is the
15 cultural impact from a changed management
16 standpoint.

17 Price enters into it, also. Is it, does
18 it need industry functionality and industry support
19 besides just a general solution, and who has the
20 best industry expertise? What is the amount of R&D
21 and research and development that is dedicated to
22 that particular industry or that solution set going

00191

- 1 forward? What is the product road map? I think
- 2 that's 12 things off the top of my head.

17 Q. In terms of the subject matter of this
18 document, ERP, first maybe it would be helpful to
19 start, what is ERP in terms of this document, what
20 does it refer to?

21 A. Those elements that comprise the ERP
22 suite, which depending on which analyst firm you

00196

1 want to refer to, they define ERP a little
2 differently. ERP again was, initially the term ERP
3 was dubbed by Gartner several years back and now
4 they, their definition of this market or this suite
5 area is called ERP 2, which includes core ERP plus
6 CRL. At the heart of ERP is financials, human
7 resources, controlling, treasury, some elements of
8 procurement, et cetera.

9 Q. So in terms of ERP, it includes both
10 human resources and financials?

11 A. Correct.

12 Q. Now, in terms of that ERP, who is SAP's
13 most frequent competitor?

14 A. Oracle first.

15 Q. Who is SAP's most, second most frequent
16 competitor?

17 A. PeopleSoft.

9 Q. Would you look at the HR column, please,
10 and tell me, do you consider yourself to be
11 competing with each of the entities listed in this
12 column in the U.S. market?

13 A. No. We would consider ourselves main
14 competitor with everybody with the exception of
15 ADP. Traditionally we would not compare ourselves
16 to an ADP today.

17 Q. Why is that?

18 A. Because they sell services and we sell
19 software.

20 Q. Can you ever think of an instance where a
21 customer decided to outsource a particular
22 functionality such as its HR processes to ADP or

00273

1 Fidelity or another BPO outsourcer rather than buy
2 your HR suite?

3 A. Based on my knowledge of our win/loss
4 process, I have never seen ADP come across as a
5 loss, so to answer your question, no.

6 Q. Do you know of any circumstances where
7 you have competed in the final round against ADP in
8 a particular procurement?

9 A. Not that I have working knowledge of, no.

10 Q. Okay.

11 A. Or tracking knowledge of.

4 Q. I just had a few follow-up questions
5 based on Mr. Lindstrom's examination. You had
6 talked about efforts, your efforts to track SAP's
7 position, vis-a-vis I believe you called it your
8 top seven competitors; is that right?

9 A. Yes.

10 Q. And those were identified at the time,
11 one grouping was SAP, Oracle, PeopleSoft,
12 JD Edwards, Siebel, Manugistics and i2.

13 A. That is correct.

14 Q. Out of that listing, which of those
15 companies offers a human resources application
16 product?

17 A. Oracle, PeopleSoft, SAP. That's it.

18 Q. And JD Edwards?

19 A. I'm sorry, JD Edwards. I consider them
20 PeopleSoft now. Sorry.

21 Q. Same question now with respect to
22 financial management software. Which of these

00368

1 companies offers a product in that space?

2 A. The same. Everybody except Siebel.

3 Q. So those three don't offer an HR solution

4 or financial management solution?

5 A. No.

15 Q. Looking at finance, Sage, is Sage a
16 software vendor that SAP competes with in small,
17 medium businesses, as we have defined it, under
18 \$200 million?

19 A. Yes, but I think we have seen, if I
20 recall, I think we have seen them up in the lower
21 end of the mid-market, above \$200 million.

22 Q. So where is kind of the top end in which

00370

1 you encountered Sage?

2 A. Below \$500 million.

3 Q. Below \$500 million. Can you think of any
4 instance in which you competed for Sage or perhaps
5 in a best subsidiary software in accounts above
6 \$500 million dollars?

7 A. Not to the best of my recollection, but
8 if I do recall though, if I remember right, Sage is
9 a company that not only has a best, but they have
10 grown through acquisition. We view them as a
11 viable competitor that is growing up market.

12 Q. When you say up market, where are they
13 growing up market?

14 A. In other words, instead of just competing
15 in the less than \$200 million space, I think we
16 will in the future see them more aggressively come
17 and try to serve the needs of the \$200- to \$500
18 million dollar market and attempt to grow even
19 north of that. Above \$500 million. It's part of
20 this, part of our intelligence tells us that they
21 are continuing to improve their product, they have
22 an acquisition feeling about them and they want to

00371

1 grow and become a much more viable competitor in
2 the financials area.

3 Q. Do you anticipate their competing in
4 accounts above a billion dollars?

5 A. Not any time soon.

6 Q. And I believe you testified under
7 Mr. Lindstrom's examination that Intuit is a
8 commercial off-the-shelf solution; is that right?

9 A. Yes. Intuit?

10 Q. Yes.

11 A. That is correct.

12 Q. Turning to HR, Kronos, does Kronos offer
13 a full HR functionality to your knowledge?

14 A. No.

15 Q. Again, there's another mention of Sage
16 here. Would the same sorts of market metrics that
17 we mentioned with respect to their financial
18 business apply to their HR business?

19 A. Yes.

18 Q. We talked a little bit earlier about the
19 infrastructure, the technology stack and enterprise
20 applications and their relationship to one another.

21 Does SAP sell databases?

22 A. No. I mean, we have a reseller's

00373

1 agreement with Oracle, so we can actually sell the
2 Oracle product, but we don't have our own. We used
3 to have our own database. We divested of that
4 either in late 2002 or early 2003. So we do not
5 today have our own software.

6 Q. How often do you resell Oracle's
7 database?

8 A. Quite often. We are their number 1
9 distributor of their database.

10 Q. Do you have an understanding of what, we
11 identified 2800 to 3,000 buying entities in the
12 United States that SAP America has a relationship
13 with. How many of those buying entities are using
14 an Oracle database under your products, and your
15 application?

16 A. I wouldn't exactly know the correct
17 percentage, but I would say the vast majority, over
18 a majority, over 50 percent.

19 Q. Over 60 percent?

20 A. Probably closer to 60. We characterize
21 Oracle as a well established, phenomenally great
22 database company, and we happen to be their number

00374

1 1 reseller and partner.

2 Q. How long have you had this arrangement

3 with Oracle to resell its database?

4 A. For many years. I don't know the

5 inception date of it, but for a long time.